

# **Highway State Special Revenue Account: Working Capital Update**

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**Prepared by**

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## Introduction

The highways state special revenue account (HSSRA) has historically experienced imbalances between revenues and expenditures. This report is prepared for the Legislative Finance Committee (LFC) to provide awareness of the fiscal condition of the account, in the event the committee may wish to formulate recommendations to present to the 2001 legislature.

After the impacts of the 1999 legislative session were considered, the account was expected to maintain a positive working capital balance and return to a stable fiscal condition. However, passage of HB 4 (May 2000 special legislative session) altered the potential impacts if HB 540 (1999 legislature) is approved by the electorate. As discussed below, the combined impacts of HB 540 and HB 4, the account is again projected to move into an unstable fiscal condition with a negative working capital balance.

## HB 540 and HB 4 in Brief

HB 540 revised motor vehicle tax and registration laws to: 1) eliminate the sales tax on new vehicles; 2) replace the ad valorem based registration tax with a fee schedule based on vehicle age; 3) allow a county to impose a local option fee on motor vehicles; and 4) allowed HSSRA to keep the interest generated on the account. HB 540 is an initiative that must be approved by the electorate and will be presented via a referendum on the November 7, 2000, general election. HB 4 attempted to fulfill the legislature's obligation to provide alternative funding for local government by: 1) reducing property taxes via increased direct state aid for school districts; 2) providing an increase of state funding for basic and per-ANB entitlement; 3) clarifying laws for the disposition of taxes and fees on motor vehicles; and 4) reserving \$37 million general fund money to be used during the biennium beginning July 1, 2001. HB 4 was passed by the legislature and is current law.

## The Highway State Special Revenue Account

### Applicable Funds

The state special revenue account used to fund the major activities of the Montana Department of Transportation (MDT) is formed by combining two funds that are commonly referred to as the highways state special revenue account (HSSRA). The two funds making up the HSSRA are the constitutionally restricted fund (fund 02422) and the non-restricted fund (fund 02349).

## Brief Historical Perspective

The HSSRA has historically experienced periods of fiscal instability. The instability goes back earlier than the 1993 legislature when account balances dropped to levels that prompted gas and diesel tax increases. Because of the fiscal condition of the account, the 1993 legislature increased gas and diesel taxes from 20 cents per gallon to 27 cents per gallon and to 27 <sup>3</sup>/<sub>4</sub> cents per gallon, respectively. The continuation of the instability prompted a study of the account funding during the 1997-1998 interim. A brief summary of the study committee recommendations is provided in Appendix A of this report.

Table 1  
Working Capital Analysis - Highways State Special Revenue Accounts <sup>1</sup>  
Projected Revenues and Expenditures  
(Assumes the Electorate Disapproves HB 540)  
Fiscal Years 1999 -2005

	Fiscal 1999 Actual	Fiscal 2000 Actual	Fiscal 2001 Appropriated	Fiscal 2002 Estimate	Fiscal 2003 Estimate	Fiscal 2004 Estimate	Fiscal 2005 Estimate
BEGINNING WORKING CAPITAL BALANCE	\$48,466,448	\$48,974,472	\$23,563,730	\$7,600,275	\$1,261,437	\$5,326,196	\$10,478,133
REVENUE							
Gas Tax (HJ 2) - restricted	\$120,093,956	\$124,679,120	\$127,141,000	127,185,170	\$128,457,022	\$129,741,592	\$131,039,008
Diesel Tax (HJ 2) - restricted	51,171,425	54,259,213	55,886,990	57,563,599	59,290,507	61,069,222	62,901,299
G.V.W. (HJ 2) - restricted	17,204,020	18,170,861	18,065,250	18,155,576	18,246,354	18,337,586	18,429,274
Other restricted revenue	4,971,734	5,100,972	5,100,972	5,100,972	5,100,972	5,100,972	5,100,972
Other non-restricted revenue	13,997,692	15,837,269	15,234,750	15,310,924	15,387,478	15,464,416	15,541,738
Potential impacts on revenue of legislation in 1999 legislature <sup>2</sup>	0	0	(652,328)	(8,800)	(8,800)	(8,800)	(8,800)
<b>TOTAL REVENUE</b>	<b>\$207,438,827</b>	<b>\$218,047,435</b>	<b>\$220,776,634</b>	<b>\$223,307,441</b>	<b>\$226,473,533</b>	<b>\$229,704,988</b>	<b>\$233,003,491</b>
Available Working Capital	\$255,905,275	\$267,021,907	\$244,340,364	\$230,907,716	\$227,734,970	\$235,031,183	\$243,481,624
EXPENDITURES							
MDT Expenditures							
General Operations	\$12,352,448	\$14,010,603	\$14,530,794	\$16,914,622	\$16,587,063	\$17,084,675	\$17,597,215
Tribal Refunds - SA	22,820	24,435	28,036	28,877	29,743	30,636	31,555
Construction revenue)	73,665,908	90,891,133	46,593,998	70,879,274	73,624,731	\$75,833,473	\$78,108,477
Maintenance <sup>3</sup>	68,576,673	69,930,872	79,608,356	81,708,236	82,107,318	84,570,538	87,107,654
Motor Carrier Services (G.V.W.)	4,601,324	4,823,500	5,002,278	5,019,923	5,043,982	5,195,301	5,351,161
Transportation Planning	769,088	1,560,620	1,576,013	1,945,433	1,740,083	1,792,285	1,846,054
Debt Service/Bond Principal & Interest	13,690,865	13,536,080	13,935,352	13,936,852	3,798,551	-	-
<b>Total MDT Expenditures</b>	<b>\$173,679,126</b>	<b>\$194,777,243</b>	<b>\$188,667,929</b>	<b>\$190,433,217</b>	<b>\$182,931,471</b>	<b>\$184,506,908</b>	<b>\$190,042,115</b>
Local Distributions							
County Distribution - SA	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000
City Distribution - SA	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000
Local Technical Assistance Program - SA	54,000	54,000	54,000	54,000	54,000	54,000	54,000
<b>Total Local Distributions</b>	<b>\$16,766,000</b>	<b>\$16,766,000</b>	<b>\$16,766,000</b>	<b>\$16,766,000</b>	<b>\$16,766,000</b>	<b>\$16,766,000</b>	<b>\$16,766,000</b>
Other Agency Expenditures							
Department of Justice <sup>4</sup>	15,850,092	16,494,329	17,252,851	\$18,697,062	\$18,961,303	\$19,530,142	\$20,116,046
HB 5 Long-Range Building Program (Dept. of Fish, Wildlife & Parks)	845,359	502,091	1,656,504	750,000	750,000	750,000	750,000
HB 5 Long-Range Building Program (MDT Facilities)	1,810,937	1,897,948	2,509,907	3,000,000	3,000,000	3,000,000	3,000,000
<b>Total Other Agency Expenditures</b>	<b>\$18,506,388</b>	<b>\$18,894,368</b>	<b>\$21,419,262</b>	<b>\$22,447,062</b>	<b>\$22,711,303</b>	<b>\$23,280,142</b>	<b>\$23,866,046</b>
Potential impacts of other legislation (expenditure impacts) <sup>2</sup>			1,125,000				
Equipment program contributed capital (SB 333 Startup)		4,342,201	8,761,898				
Actual transfer to Noxious Weed Management Trust Fund (SB 164)		1,125,000					
Other transfers		15,000					
<b>TOTAL EXPENDITURES</b>	<b>\$208,951,514</b>	<b>\$235,919,812</b>	<b>\$236,740,089</b>	<b>\$229,646,279</b>	<b>\$222,408,774</b>	<b>\$224,553,050</b>	<b>\$230,674,162</b>
REVENUE & EXPENDITURE VARIANCE	(\$1,512,687)	(\$17,872,377)	(\$15,963,455)	(\$6,338,838)	\$4,064,759	\$5,151,938	\$2,329,329
NET ADJUSTMENTS (Prior year and other)	2,020,711	\$ (7,538,365)					
ENDING WORKING CAPITAL BALANCE	<b>\$48,974,472</b>	<b>\$23,563,730</b>	<b>\$7,600,275</b>	<b>\$1,261,437</b>	<b>\$5,326,196</b>	<b>\$10,478,133</b>	<b>\$12,807,462</b>

<sup>1</sup> Includes both the highway restricted and nonrestricted accounts

<sup>2</sup> Other legislation included in analysis:

Revenue impacts (SB 401 and HB 138)

Expenditure impacts (SB 164)

<sup>3</sup> The impacts of SB 333 have been included in the Maintenance Program figures

When last updated for the LFC, in October 1999, the account was showing signs of stabilization between expenditures and revenues. The last update report dated September 20, 1999, projected that the account working capital balance would drop to a low of nearly \$10.7 million at the end of fiscal 2003 and begin to grow thereafter. Were it not for the potential fiscal impacts on the account if the vehicle tax and registration changes (HB 540) are approved by the electorate, this situation would continue.

## Current Law Projections without HB 540

The changes that HB 540 made to the vehicle tax and registration laws do not become effective until approved by the electorate. If the potential impacts of HB 540 were ignored, HSSRA would appear to be remaining in a position of fiscal stability. In other words, revenues are equal to or greater than expenditures after fiscal 2002. Table 1 shows the working capital analysis based on the assumption that the electorate rejects the changes the legislature made in HB 540. Under this assumption, the working capital balance would drop to a low of nearly \$1.3 million at the end of fiscal 2002 and grow to nearly \$12.9 million by the end of fiscal 2005. These projections are subject to one caveat with regard to the assumptions for expenditures. The estimated expenditures for the Department of Transportation (MDT) and Department of Justice (DOJ) contained in this analysis assume only present law for all but Long-range Building Program expenditures. Estimates for a pay plan increase or new proposals are not included in the analysis.

## New Proposals and Pay Plan Impacts without HB 540

The 1999 legislature authorized HSSRA funded new proposals for MDT and DOJ that totaled \$2.9 million for the 2001 biennium and that were not related to funding shifts or MDT's assumption of maintenance on paved secondary roads. An estimate of HSSRA funding of a 3 percent pay plan for MDT and DOJ is \$6.6 million for the 2003 biennium. If HSSRA funded new proposals were approved at the 2001 biennium level and a 3 percent pay plan was approved, the expenditure increase would be nearly \$9.5 million higher than shown on Table 1 for the 2003 biennium. Table 2 shows the impact on the HSSRA working capital balance for fiscal years 2001 through 2005 if new proposals (at the 2001 biennium level) and a 3 percent pay plan are approved by the legislature.

<p style="text-align: center;">Table 2 Working Capital Analysis - Highways State Special Revenue Accounts Impacts of New Proposals and Pay Plan (Assumes the Electorate Disapproves HB 540) Fiscal Years 2001 -2005</p>					
	Fiscal 2001 Appropriated	Fiscal 2002 Estimate	Fiscal 2003 Estimate	Fiscal 2004 Estimate	Fiscal 2005 Estimate
BEGINNING WORKING CAPITAL BALANCE	\$23,563,730	\$7,600,275	(\$2,341,725)	(\$4,136,762)	\$1,015,176
ENDING WORKING CAPITAL BALANCE	<u>\$7,600,275</u>	<u>\$1,261,437</u>	<u>\$1,723,033</u>	<u>\$1,015,176</u>	<u>\$3,344,505</u>
NEW PROPOSALS		1,433,121	1,433,121		
3 PERCENT PAY PLAN		2,170,042	4,426,675		
ADJUSTED ENDING WORKING CAPITAL BALANCE	<u>\$7,600,275</u>	<u>(\$2,341,725)</u>	<u>(\$4,136,762)</u>	<u>\$1,015,176</u>	<u>\$3,344,505</u>

If the new proposals and the pay plan are considered in the analysis, the working capital balance would go negative in fiscal 2002, but become positive again in fiscal 2004. The primary factor for the projected return to a positive balance is the fiscal 2003 retirement of the debt the MDT accumulated in fiscal 1987 to fund federal-aid and state funded construction projects.

## **Expenditure Assumptions and Basis**

### **Fiscal 2001**

Expenditure estimates for fiscal 2001 are total non-reverted appropriations, with one exception. The fiscal 2001 estimate for the MDT Construction Program assumes the program will be short of HSSRA authority and will need to augment the HSSRA authority via a funding transfer from federal special revenue authority. This assumption will be discussed in more detail separately in this report.

### **2003 Biennium**

Estimated 2003 biennium program expenditures of HSSRA in MDT and DOJ were taken from the budget requests submitted by the departments to the budget office. For the purpose of the analysis, as shown on Table 1, program expenditures only include base and present law requests. The Long-range Building Program expenditures by MDT and the Department of Fish, Wildlife and Parks (FWP) are assumed to support present law operations and include estimates based on capital project requests included on the state budgeting system for the 2003 biennium. The 2003 biennium capital project requests were divided evenly between each fiscal year of the biennium.

### **2005 Biennium**

The 2005 biennium HSSRA expenditure estimates for MDT and DOJ are the fiscal 2003 estimates inflated by 3 percent per year. Estimates for 2005 biennium Long-range Building Program expenditures assume the 2003 biennium annual expenditure estimates will be repeated in the 2005 biennium at the 2003 biennium level.

### **Legislation Impacting Expenditures**

Potential expenditure impacts of legislation are included as follows:

- For SB 333, maintenance of paved secondary roads, the impacts are factored into the MDT Maintenance Program estimates, except for contributed capital to the Equipment Program for SB 333 startup costs. In fiscal 2001, SB 333 would account for roughly \$9.6 million Maintenance Program expenditures. SB 333 accounts for nearly \$22.3 million of the expenditures in the 2003 biennium estimates.
- For HB 135, DOJ protective service professionals pay increase, the impacts are factored into the DOJ estimates. In fiscal 2001, HB 135 would account for nearly \$865,000 of the DOJ expenditures.
- For SB 164, noxious weed management and appropriation, the \$1.125 million annual transfer out of the non-restricted highways account only occurs in the 2001 biennium.

### **State Funded Construction Program**

Also included in the expenditure estimates for the 2003 and 2005 biennia is a reduction of the state funded construction program. The preliminary budget for MDT reduces the state funded construction program to the minimum level (roughly \$10.0 million) that would maintain a federal participation of 87 percent with a state match of 13 percent for federal-aid construction projects. A more detailed discussion of the state funded construction program as it relates to the federal-aid construction program is provided later in this report.

## Revenue Assumptions and Basis

### Revenue Categories

The HSSRA revenues are being presented in different categories than appeared in the September 1999 projection report. Here the revenues are separated between those that are restricted from diversion by Article VIII, Section 6, Montana Constitution, and those that are not restricted. As before, gas and diesel taxes and GVW fees are presented separately from other miscellaneous revenues.

Restricted revenues include revenues from gross vehicle weight fees and excise and license taxes on gasoline, fuel, and other energy sources used to propel vehicles on public highways. Other restricted revenues are revenues that are being coded by agencies to the restricted fund but are not directly related to GVW fees or gas or diesel taxes. Other restricted revenues are revenues from activities such as outdoor sign permits, rentals and leases, administrative charges, and workers compensation dividends. Non-restricted revenues include revenues from activities such as new car sales tax, motor fuel penalties, and special use or special route permits.

### Fiscal 2001

Revenue estimates for fiscal 2001 are HJR 2 estimates for gas taxes and gross vehicle weight (GVW) fees, with one exception. The HJR 2 estimate for gas tax assumed that \$1.5 million would be paid for alcohol production incentives under 15-70-522, MCA. Since the estimates of HJR 2 were developed, the only alcohol production facility in the pipeline for certification has failed to meet the certification requirements, and will not likely be eligible for the incentive. Consequently, \$1.5 million has been added to the gas tax revenue estimate of HJR 2 for fiscal 2001.

The actual diesel tax revenues in fiscal 2000 were significantly higher than the HJR 2 estimates. Because this trend is expected to continue, the fiscal 2001 estimate for diesel tax is fiscal 2000 actual revenues inflated by 3 percent.

The HJR 2 revenue estimate for GVW is split between the "G.V.W. (HJ 2) – restricted" and "Other non-restricted revenue" categories based on the relative percentage of fiscal 2000 actual revenues. The "Other restricted revenues" category assumes the actual fiscal 2000 revenues will continue without growth.

Potential revenue impacts of legislation assume the fiscal impact contained on the most recent fiscal notes for SB 401 and HB 138. SB 401 revised the definition of "agricultural use" for gasoline and special fuel tax refunds. HB 138 eliminated the annual license renewal fee for wholesale gasoline and special fuel distributors. It also eliminated the licensing requirement that applies to a person who sells gasoline or special fuel for which a refund may be claimed.

### 2003 Biennium

Estimated 2003 biennium gas tax revenues are fiscal 2000 actual revenues inflated by 1.0 percent per year, including compounding for fiscal 2001. Diesel tax revenues are fiscal 2001 estimated revenues inflated by 3.0 percent. GVW revenues in the "G.V.W. (HJ 2) – restricted" and "Other non-restricted revenue" categories are inflated by 0.5 percent per year. The analysis assumes the "Other restricted revenues" category will continue without growth. Potential revenue impacts of legislation assume the fiscal impact contained on the most recent fiscal note for HB 138.

### 2005 Biennium

The estimates for the 2005 biennium are the prior year estimates with the following annual inflation assumptions:

- gas tax, 1.0 percent;

- diesel tax, 3.0 percent;
- G.V.W. (HJ 2) – restricted, 0.5 percent;
- other non-restricted revenue, 0.5 percent; and
- other restricted revenues, no inflation.

Potential revenue impacts of legislation assume the fiscal impact contained on the most recent fiscal note for HB 138.

	Fiscal 1999 Actual	Fiscal 2000 Actual	Fiscal 2001 Appropriated	Fiscal 2002 Estimate	Fiscal 2003 Estimate	Fiscal 2004 Estimate	Fiscal 2005 Estimate
BEGINNING WORKING CAPITAL BALANCE	\$48,466,448	\$48,974,472	\$23,563,730	\$5,400,275	(\$6,891,305)	(\$9,782,546)	(\$12,508,963)
REVENUE							
Gas Tax (HJ 2) - restricted	\$120,093,956	\$124,679,120	\$127,141,000	127,185,170	\$128,457,022	\$129,741,592	\$131,039,008
Diesel Tax (HJ 2) - restricted	51,171,425	54,259,213	55,886,990	57,563,599	59,290,507	61,069,222	62,901,299
G.V.W. (HJ 2) - restricted	17,204,020	18,170,861	18,065,250	18,155,576	18,246,354	18,337,586	18,429,274
Other restricted revenue	4,971,734	5,100,972	5,100,972	5,100,972	5,100,972	5,100,972	5,100,972
Other non-restricted revenue	13,997,692	15,837,269	15,234,750	15,310,924	15,387,478	15,464,416	15,541,738
Potential impacts on revenue of legislation in 1999 legislature <sup>2</sup>	0	0	(2,852,328)	(5,961,542)	(6,964,800)	(7,887,155)	(8,880,606)
TOTAL REVENUE	<u>\$207,438,827</u>	<u>\$218,047,435</u>	<u>\$218,576,634</u>	<u>\$217,354,699</u>	<u>\$219,517,533</u>	<u>\$221,826,633</u>	<u>\$224,131,684</u>
Available Working Capital	\$255,905,275	\$267,021,907	\$242,140,364	\$222,754,974	\$212,626,228	\$212,044,087	\$211,622,721
EXPENDITURES							
MDT Expenditures							
General Operations	\$12,352,448	\$14,010,603	\$14,530,794	\$16,914,622	\$16,587,063	\$17,084,675	\$17,597,215
Tribal Refunds - SA	22,820	24,435	28,036	28,877	29,743	30,636	31,555
Construction revenue)	73,665,908	90,891,133	46,593,998	70,879,274	73,624,731	\$75,833,473	\$78,108,477
Maintenance <sup>3</sup>	68,576,673	69,930,872	79,608,356	81,708,236	82,107,318	84,570,538	87,107,654
Motor Carrier Services (G.V.W.)	4,601,324	4,823,500	5,002,278	5,019,923	5,043,982	5,195,301	5,351,161
Transportation Planning	769,088	1,560,620	1,576,013	1,945,433	1,740,083	1,792,285	1,846,054
Debt Service/Bond Principal & Interest	<u>13,690,865</u>	<u>13,536,080</u>	<u>13,935,352</u>	<u>13,936,852</u>	<u>3,798,551</u>	-	-
Total MDT Expenditures	\$173,679,126	\$194,777,243	\$188,667,929	\$190,433,217	\$182,931,471	\$184,506,908	\$190,042,115
Local Distributions							
County Distribution - SA	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000	10,389,000
City Distribution - SA	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000	6,323,000
Local Technical Assistance Program - SA	<u>54,000</u>	<u>54,000</u>	<u>54,000</u>	<u>54,000</u>	<u>54,000</u>	<u>54,000</u>	<u>54,000</u>
Total Local Distributions	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000	\$16,766,000
Other Agency Expenditures							
Department of Justice <sup>4</sup>	15,850,092	16,494,329	17,252,851	\$18,697,062	\$18,961,303	\$19,530,142	\$20,116,046
HB 5 Long-Range Building Program (Dept. of Fish, Wildlife & Parks)	845,359	502,091	1,656,504	750,000	750,000	750,000	750,000
HB 5 Long-Range Building Program (MDT Facilities)	<u>1,810,937</u>	<u>1,897,948</u>	<u>2,509,907</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Total Other Agency Expenditures	\$18,506,388	\$18,894,368	\$21,419,262	\$22,447,062	\$22,711,303	\$23,280,142	\$23,866,046
Potential impacts of other legislation (expenditure impacts) <sup>2</sup>			1,125,000				
Equipment program contributed capital (SB 333 Startup)		4,342,201	8,761,898				
Actual transfer to Noxious Weed Management Trust Fund (SB 164)		1,125,000					
Other transfers		<u>15,000</u>					
TOTAL EXPENDITURES	<u>\$208,951,514</u>	<u>\$235,919,812</u>	<u>\$236,740,089</u>	<u>\$229,646,279</u>	<u>\$222,408,774</u>	<u>\$224,553,050</u>	<u>\$230,674,162</u>
REVENUE & EXPENDITURE VARIANCE	(\$1,512,687)	(\$17,872,377)	(\$18,163,455)	(\$12,291,580)	(\$2,891,241)	(\$2,726,417)	(\$6,542,477)
NET ADJUSTMENTS (Prior year and other)	2,020,711	\$ (7,538,365)					
ENDING WORKING CAPITAL BALANCE	<u>\$48,974,472</u>	<u>\$23,563,730</u>	<u>\$5,400,275</u>	<u>(\$6,891,305)</u>	<u>(\$9,782,546)</u>	<u>(\$12,508,963)</u>	<u>(\$19,051,441)</u>
<sup>1</sup> Includes both the highway restricted and nonrestricted accounts							
<sup>2</sup> Other legislation included in analysis: Revenue impacts (SB 401, HB 138, HB 540, and HB 4 of the 2000 special legislative session) Expenditure impacts (SB 164)							
<sup>3</sup> The impacts of SB 333 have been included in the Maintenance Program figures							



## Current Law Projections with HB 540

The changes that HB 540 made to the vehicle tax and registration laws do not become effective until approved by the electorate. Table 1 shows the working capital analysis that results if the potential impacts of HB 540 were ignored. Table 3 shows the same analysis as shown on Table 1, using the same assumptions for revenues and expenditures, only factoring in the impacts if HB 540 is approved by the electorate. The HSSRA is projected to move into an unstable fiscal condition if HB 540 is approved.

Given the assumptions described above, HSSRA would go negative by the end of fiscal 2002. The analysis projects a balance of nearly -\$6.9 million at the end of fiscal 2002 with the balance going more *negative* thereafter to a balance of nearly -\$19.1 million at the end of fiscal 2005.

Table 4 Working Capital Analysis - Highways State Special Revenue Accounts Impacts of New Proposals and Pay Plan (Assumes the Electorate Approves HB 540) Fiscal Years 2001 -2005					
	Fiscal 2001 Appropriated	Fiscal 2002 Estimate	Fiscal 2003 Estimate	Fiscal 2004 Estimate	Fiscal 2005 Estimate
BEGINNING WORKING CAPITAL BALANCE	\$23,563,730	\$5,400,275	(\$10,494,467)	(\$19,245,504)	(\$21,971,921)
ENDING WORKING CAPITAL BALANCE FROM TABLE 3	<u>\$5,400,275</u>	<u>(\$6,891,305)</u>	<u>(\$13,385,708)</u>	<u>(\$21,971,921)</u>	<u>(\$28,514,399)</u>
NEW PROPOSALS		1,433,121	1,433,121		
3 PERCENT PAY PLAN		2,170,042	4,426,675		
ADJUSTED ENDING WORKING CAPITAL BALANCE	<u>\$5,400,275</u>	<u>(\$10,494,467)</u>	<u>(\$19,245,504)</u>	<u>(\$21,971,921)</u>	<u>(\$28,514,399)</u>

## New Proposals and Pay Plan Impacts with HB 540

As stated above, Table 3 excludes impacts of potential legislative approval of new proposals and a pay plan. Table 4 shows the impact on the HSSRA working capital balance for fiscal years 2001 through 2005 if new proposals (at the 2001 biennium level) and a 3 percent pay plan are approved by the legislature. If the new proposals and the pay plan are considered in the analysis, the working capital balance would go negative in fiscal 2002 and continue to increase in the negative direction from nearly -\$10.5 million at the end of fiscal 2002 to -\$28.5 million at the end of fiscal 2005.

## Impacts of Vehicle Tax and Registration Law Changes

### HB 540 (1999 Legislature)

The 1999 legislature passed HB 540, which changed the taxation and registration laws for certain vehicles. The changes made by HB 540 are subject to approval by the electorate and if approved will not take effect until January 1, 2001. The potential impacts of HB 540 were factored in to the analysis of the account that was presented to the LFC in October 1999.

## **HB 4 (May 2000 Special Session)**

Since the October 1999 report to the LFC, HB 4 was passed by the May 2000 special session of the legislature. HB 4 struck language contained in HB 540 that distributed revenue to the HSSRA from "fees from vehicles for which an original application for title or the original Montana registration is sought." The language in HB 540 would have distributed registration fees for all newly titled vehicles to the HSSRA. This would have included used vehicles brought into the state that were registered for the first time in the state. HB 4 replaced this language with language that restricted the distribution of revenue to HSSRA only from vehicles that are newly manufactured. HB 4 also abolished the distribution of local option tax revenue from newly titled light vehicles to HSSRA.

## **Impacts on HSSRA if the Electorate Approves HB 540**

In November 2000, the electorate will vote on vehicle tax and registration law changes contained in HB 540. HB 4 is current law and is not subject to approval by the electorate. If HB 540 is approved, the HSSRA would see revenue reductions that are estimated to be \$2.2 million in fiscal 2001 and \$6.1 million starting in fiscal 2002. For each year after fiscal 2002, the adverse revenue impact would continue to grow relative to how the vehicle tax and registration laws impact the account under current law.

The major factor of HB 540 that causes the adverse impacts on HSSRA to grow each year (relative to current law) is that the value of vehicles currently subject to the new car sales tax is assumed to continue to grow nearly 7.0 percent per year, while under HB 540 the only growth would be a 1.5 percent annual growth of the number of vehicles. HB 540 attempted to offset a portion of this effect by allowing the account to retain the interest on its balance instead of transferring it to the general fund. This offset is negated when the account no longer maintains a positive cash balance. Furthermore, the adverse impacts of HB 540 would grow at a higher rate than shown on Tables 3 and 4 if the ongoing operations of MDT were funded with debt. The only debt financing of the department shown in the analysis is the 1987 bonds issued to fund state funded construction and the state match for federal-aid construction. This debt will be retired in fiscal 2003. The analysis does not consider any debt service to fund the projected shortfall.

## **Potential Funding Transfer**

The appropriations for the MDT Construction Program are biennial. Additionally, HB 2 contains language that authorizes the department to adjust appropriations between state special and federal special revenue fund types if the total state special revenue authority for the program is not increased by more than 10 percent of the total appropriations established by the legislature for the program.

During fiscal 2000, the department took advantage of the biennial appropriation designation for the Construction Program when they moved \$40 million state special revenue authority from fiscal 2001 to fiscal 2000. This movement is permitted by section, 17-7-301, MCA, which states that "an agency may make expenditures during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium if authorized by the general appropriations act." HB 2 provides this authorization with the biennial designation for the Construction Program appropriation.

The effects of moving the authority from fiscal 2001 to fiscal 2000 (and then expending the authority in fiscal 2000) is that fiscal 2001 will be short state special revenue to deliver the

planned program. As Tables 1 and 3 show, the Construction Program will have nearly \$47 million HSSRA authority to deliver a program that would take nearly \$74 million HSSRA authority to maintain the current construction plan. As such, roughly \$27 million would be needed to deliver the planned federal-aid and state funded construction programs. Excess federal special revenue authority is projected to be available to accomplish an appropriations adjustment from federal special revenue to state special revenue funding. Language in HB 2 allows a fund transfer that could be used to overcome the projected shortfall. However, expending \$27 million more state special revenue in the current biennium greatly accelerates the depletion of the available working capital balance.

## State Funded Construction Program

### Sliding Scale Match

MDT provides highway construction activities with two broadly categorized programs – the federal-aid construction program and the state funded construction program. In order for Montana to receive federal reimbursement under the federal-aid construction program, Montana must maintain a level of effort in the way of providing a certain level of 100 percent state funded construction. The percentage of federal reimbursement of federal-aid construction activities is determined based on a sliding scale match formula. One factor in the formula is the amount of financial contribution the state makes to maintaining the federal-aid highway system with state dollars. The department has estimated that roughly \$10 million is the level of 100 percent state funded construction needed to maintain a match ratio of 87 percent federal to 13 percent state for reimbursement of federal-aid projects. If the state does not provide the minimum level of effort identified above, the federal participation percentage would drop to 80 percent.

Based on an average annual federal participation of \$260 million the state match is roughly \$38.9 million, at 87 percent federal participation. In order to continue receiving \$260 million in federal-

Table 5 Highway Construction Program Different Federal Participation Percentages (\$millions)		
	Federal Participation	
	87 Percent	80 Percent <sup>1</sup>
Federal reimbursement	\$260	\$156
State match	<u>39</u>	<u>39</u>
Total federal-aid program	<u>\$299</u>	<u>\$195</u>
Available federal reimbursement	0	104
State match for available federal reimbursement		26
Total state match required for available federal reimbursement	39	65
Total federal-aid program with available federal reimbursement	<u>\$299</u>	<u>\$325</u>
State funded construction program	10	0
Total highway construction program	<u>\$309</u>	<u>\$325</u>
Total state match and state construction program funding	<u>\$49</u>	<u>\$65</u>
Net increase in state funding for highway construction		<b>\$16</b>
<sup>1</sup> This table assumes elimination of the state funded construction program at 80 percent federal participation .		

aid for construction at a match rate of 80 percent, the state would have to provide matching funds of \$65 million, or an increase of roughly \$16 million per year, if the state funded construction program was eliminated and the \$10 million in the state funded construction program was used to provide matching funds for the federal-aid construction program. To fund the additional increased match, the state gas tax would need to be raised by 3.6 cents per gallon or the gas and diesel taxes would each have to be increased by 2.5 cents per gallon. Table 5 compares the highway construction program for different federal matching percentages.

## State Funded Construction Expenditures

As stated earlier, the department funds highway construction in a federal-aid construction program and a 100 percent state funded construction program. In fiscal 2000, MDT expended \$13.5 million in the state funded construction program. Just over \$14 million is planned for fiscal 2001. The amount currently planned for fiscal 2001 reflects a reduction of nearly \$4.5 million because of projects being redirected from the state funded construction program to the federal-aid construction program. The estimates for the 2003 and 2005 biennium assume that \$10 million will be expended each year in the state funded construction program. The effect of funding a reduced amount of projects out of the state funded program and funding the projects with federal-aid funds is that HSSRA funds are leveraged at a higher level by federal funds. In other words, a dollar of HSSRA buys over six times the construction activity if federal funds are used. The previous statement assumes equal design standards between the two funding programs.

According to previous statements by MDT, the main tradeoff is that if federal funds are used, the projects must be designed to all applicable federal standards. Some highway construction projects don't justify the additional expense required to meet the federal standards, such as road width, side slope, etc. and are therefore more appropriate for 100 percent state funding. The department says that projects that were moved from the state funded program to the federal-aid program had already been designed to meet the federal standards. Therefore, no incremental costs or project impacts are expected.

## Conclusion

### Projections for the HSSRA

An analysis of the HSSRA projects significantly different outcomes depending upon the results of the November 7, 2000, general election. If the electorate approves the referendum to change motor vehicle tax and registration laws that were passed by the 1999 legislature in HB 540, the HSSRA working capital balance is projected to go negative as early as fiscal 2002. The account would continue to remain in a condition in which expenditures would exceed revenues and the balance would continue to degrade.

On the other hand, if the electorate rejects the HB 540 referendum, the account is projected to experience a short-term period, through fiscal 2002, in which present law expenditures exceed revenues but the working capital balance remains positive. Beginning in fiscal 2003, the account is then projected to move into a more stable fiscal condition through fiscal 2005, with projected revenues higher than projected expenditures. The imbalance between present law expenditures and revenues reverses to one of revenue dominance in fiscal 2003 when the department debt is retired.

### Recommendations

The LFC may wish to wait until after the November 7 general election to formulate any recommendations regarding the HSSRA. Since time available to introduce legislation for the 2001 legislature is limited after the general election, the LFC may, at its October meeting, wish to provide direction to staff to propose recommendations at the November LFC meeting for

offsetting the impacts of HB 540 on the HSSRA. The direction could be contingent upon the electorate approving the HB 540 resolution.

Other options that would be needed to restore stability to the HSSRA are included below for consideration:

- increase HSSRA revenues:
  - increase gas and/or diesel taxes;
  - increase GVW fees;
  - modify revenue distribution;
  - authorize bonding for MDT; and
  - new revenue source.
- reduce HSSRA expenditures:
  - funding switch;
  - program reductions; and
  - reduce statutory appropriations to local government.

The LFC may wish to recommend a study of the department funding sources to develop alternatives for providing funding sources that are more closely linked to expenditure factors and that would provide long-term stability of HSSRA. Finally, the LFC may wish to direct MDT and DOJ to provide that recommendations for program reductions, with the list ordered by impact on the capabilities of the associated program.

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## **Appendix A**

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### **Transportation Funding Study Recommendations**

## Transportation Funding Study Recommendations

A study of Montana transportation funding was conducted during the 1997-1998 interim. The study was done because of the persistent structural imbalance of the HSSRA. The study committee provided the following recommendations to the 1999 legislature:

- shift funding of DOJ activities that are not directly related to enforcement of highway safety from the HSSRA to the general fund or another alternative source of funding;
- allow interest earned on the HSSRA fund balance to be credited to the HSSRA rather than the general fund;
- reduce the tax collection allowance for fuel distributors to 0.5 percent;
- exempt MDT from the requirement to use the Department of Administration for disposing of excess property; and
- attempt to proportionally reduce annual operating budgets by \$3.0 million for agencies funded from fuel tax revenues, with a reduction in the state funded construction program necessary to maintain an annual cash balance in the HSSRA of at least \$15.0 million.

The 1999 legislature changed statute to allow the HSSRA to keep the interest generated by the account balance. This legislative change was made by HB 540, which is contingent upon approval by the electorate. For the 2001 biennium, the legislature shifted \$2.1 million HSSRA funded Highway Patrol Operations Program functions, not directly related to enforcement of highway safety, to the general fund. However, the legislature approved 2001 biennium increases of HSSRA funding for DOJ by \$4.2 million. The DOJ increases funded by HSSRA were \$2.6 million in present law adjustments and \$1.6 million for protective service professional pay increases authorized by HB 135. The other recommendations of the transportation funding study committee were not approved by the legislature.

Although not included in HB 2 or any law, MDT has been working toward the last recommendation of the study. MDT has been reducing state funded construction program expenditures by shifting projects to the federal-aid program. As mentioned earlier, the budget proposed by the department further reduces the state funded construction program to the minimum level that would provide the highest percentage of federal-aid participation and provide the highest level of leverage of HSSRA dollars.